As I see

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REGULATION X

IN my opinion the greatest danger to the continuation of a free government in the United States lies in the strong possibility that the inflation psychology has now gone so far that it cannot be stopped. We have consistently followed a policy during the past 17 years of meeting all problems by robbing the past or by mortgaging the future. We were told that our currency, tied to gold as it was prior to 1933, was the cause of the collapse in the thirties and that the remedy lay in a managed currency (by managed currency was meant a currency not convertible into gold). Our pre-1933 dollar was a managed dollar as all currencies are, regardless of whether they are tied to gold or not. Historically, however, the so-called "managed currencies," that is, those which are not redeemable in gold, are the ones which have been most frequently mismanaged to the extent that they have become worthless. The option which the holder of redeemable currency has to convert at any time places a definite limit on the amount of currency expansion which the government might otherwise use.

All economists of the past have been familiar with the money inflations which the various countries have gone through, all following exactly the same pattern. In each of these inflations the currency and credit was inflated by the government to meet obligations it could not meet out of revenue. As a result, prices and wages rose and the spiral was started. The government then attempted to stop the increases by treating symptoms rather than causes, and while it continued to inflate, tried to enforce rationing and price controls. In time this became impossible, and the system collapsed, quite frequently carrying the government with it and resulting in a period of revolution and civil disorder.

John Stuart Mill, one of the outstanding economists of the past, writing around the middle of the 1800's, said, "To scatter an indefinite abundance of the circulating medium with one hand and keep down prices with the other is a thing manifestly impossible under any regime except one of unmitigated terror." Bernard Baruch's wage and price freeze could delay but could not prevent further inflation.

Prices and wages rise when money and credit increase faster than goods and services. In 1933 the currency and bank deposits per capita in the United States amounted to $348. The last figure available for 1950 would show this to have advanced to approximately $1, 200. Had output increased by an equivalent amount, prices would not have risen, but the greater part of this increase represents pure inflation more dangerous than had it been caused by an actual printing of greenbacks.

It is the duty of the government to maintain the value of its currency and credit and this responsibility is doubly great if the government has sold to its citizens bonds under the pretext that these bonds were good investments. I have just studied the figures on the number of Series E bonds which have been sold to the public each year from 1941 to the present. These bonds, it will be remembered, contain a face value which is attained at the end of ten years, the purchase price being three-fourths of the face value. In 1941 the Federal government sold $203 million of E bonds. These E bonds could now be redeemed for approximately $260 million, the difference between the purchase price and the present value being the amount of interest which they have earned. It is rather interesting to note, however, that if the $203 million had been invested in commodities and services in 1941, it would have purchased an amount far greater than could be purchased by the $260 million at the present time. In fact, the loss in purchasing power in the 9-year period has amounted to 22.6%, or a loss above the interest payments equivalent to 2½% a year. The trusting patriotic individual who bought war bonds in 1941 because of government-sponsored inflation has now lost almost one-fourth of the purchasing power of his principal, even when increased by the amount of interest the bonds presumably carry. The total of Series E bonds purchased from 1941 through 1949 is $57,479,000,000. The redemption value of these today in dollars is $63,657,000,000. In terms of the purchasing power of these dollars, however, at the time that the bonds were purchased, the redemption value amounts to $50,441,000,000, or more than $7,000,000,000 less than the original payments. This is equivalent to a loss on all E bonds in purchasing power of 12.2%.

The loss in the value of the dollar not only affects the purchasers of government bonds, but those who have purchased mortgages, corporate bonds or any other fixed dollar obligations as well. It robs those of purchasing power who have put their savings in life insurance, savings banks and savings and loan associations. The only person it benefits to any great extent is the speculator.

During the past few months the amount of credit outstanding in the United States has been increasing at an alarming rate. This increase is the result of definite government policies which "planned it that way." The Secretary of the Treasury has constantly insisted that in order to carry the government debt, interest rates must be kept very low. Low interest rates have always stimulated borrowing and if that were not sufficient, we have insisted in the United States that everybody had the right to buy a new car, an appliance or a new home regardless of whether or not he had money to pay for it. The returning veteran could purchase a new house without a down payment and with 30 years to pay off the debt. Prior to January 1, many of these veterans' houses were financed with mortgages for more than the value of the house. Many of these mortgages were unsound the day they were made and are still unsound in spite of the additional inflation we have gotten since.

The Board of Governors of the Federal Reserve System has long viewed with alarm the rising credit volume in the United States. It has at long last decided to call a halt to the inflation spiral by every means within its power. Higher rediscount rates for banks, the tightening of credit on time payments, some additional controls over charge accounts and Regulation X to regulate conventional lending on new construction are the present weapons being used. The down payment provisions of Regulation X have also been applied to FHA loans and to veterans' loans with minor modifications in the latter case.

Regulation X provides that as the construction cost of a residence increases, the percentage of down payment required to buy it must also increase in accordance with the scale shown below. The percentage increase is on a highly progressive basis, reaching 50% for new houses costing $24,250, and remaining at the 50% level on all properties above this price. The down payment must be paid in cash and cannot be borrowed in whole or in part from any source other than from paid-up values on life insurance policies.

TABLE OF MINIMUM DOWN PAYMENTS UNDER REGULATION X AND COMPANION CURBS ON GOVERNMENT-AIDED CREDIT

Value (Transaction price)	Non-veteran (FHA and conventional) Down payment Percent	Amount	Veteran (GI loans) Down payment Percent	Amount
$ 5,000	10.0	$ 500	5.0	$ 250
6,000	14.2	850	4.2	250
7,000	17.1	1,200	7.1	500
8,000	19.4	1,550	9.4	750
9,000	21.1	1,900	11.1	1,000
10,000	23.0	2,300	13.0	1,300
11,000	24.5	2,700	14.5	1,600
12,000	25.8	3,100	15.8	1,900
13,000	26.9	3,500	18.8	2,450
14,000	27.9	3,900	21.4	3,000
15,000	28.7	4,300	23.7	3,550
16,000	31.9	5,100	26.9	4,300
17,000	34.7	5,900	29.7	5,050
18,000	37.2	6,700	32.2	5,800
19,000	39.5	7,500	34.5	6,550
20,000	41.5	8,300	36.5	7,300
21,000	43.8	9,200	38.8	8,150
22,000	45.9	10,100	40.9	9,000
23,000	47.8	11,000	42.8	9,850
24,000	49.6	11,900	44.6	10,700
24,250	50.0	12,125	45.0	10,912.50
over $24,250	50.0	--	45.0	--

I have read and heard many attacks during the past several weeks on Regulation X from builders, building material dealers, labor leaders and others. These attacks generally take the line that the prospective home owner is being deprived of his right to buy a house. This is twaddle! The so-called prospective home owner without money has no inherent right to buy something he cannot pay for. The percentages of down payment prescribed by the Federal Reserve Regulation are in many cases less than a prudent lender would insist upon in an unguaranteed loan. The insuring or guaranteeing of any loan larger than that is a subsidy which

may eventually fall back on the taxpayer and which the citizen has no right to expect.

The battle against inflation is not the battle of any special group. All loyal Americans should support the effort of the Federal Reserve System not only through Regulation X but also through all other attempts to stop the upward spiraling of currency and credit. These attempts to control inflation can be broken down by sufficient pressure, but if they fail, let not those who exert the pressure blame others for the inflation which may easily engulf us all.

America, gaily dancing down the road to financial chaos, has had few warnings from those who realized the eventual destination of the road. The politicians of both parties have found it expedient to never vote against appropriations nor to increase taxes sufficiently to carry the appropriations that they voted. Chambers of Commerce, decrying government subsidies, send delegations of their members to Washington to be sure that their communities will share in the loot. Builders who object to the subsidizing of government slum clearance projects object when they are informed that the government will no longer insure unsound loans for housing. Union leaders insist on higher wages for labor but lower rents for buildings, which in many cases are still substantially at prewar levels. Farmers, once a stronghold of rugged individualism, supinely accept allotments and marketing controls if they, too, can share in the wealth borrowed from the future.

Sooner or later this Fool's Paradise will end, either in complete disaster or in a re-emergence of that spirit of independence and courage which characterized the American of the past, the American who did not ask security from the government if its price was freedom and the limitation of the opportunity for high achievement which could only be earned by those who were willing to take the chance of failure while daring greatly.

I hope that all Americans who have earned positions of leadership in their own communities will put temporary self-interest aside and will fight with renewed determination for a sound economy.

God forbid that this generation go down in history as the one which received the hard-won heritage of freedom from its ancestors and failed to pass it on to its descendants.

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